Fixed Price and Cost Contract

Features in T-NEX

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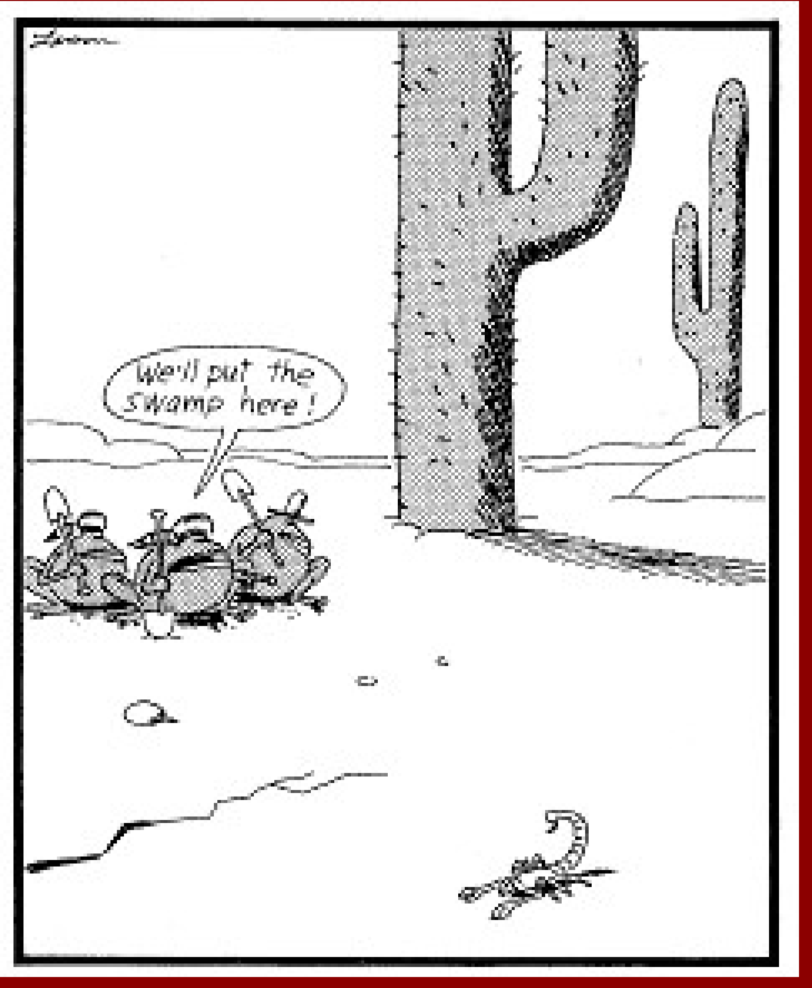
Warning – this is a very dry subject!

Frog Pione



Purpose of this briefing: To provide an understanding of the difference in contract types between 1.0 and T-NEX

What does "Type of Contract" mean?

- Contract types are covered in FAR Part 16
  - Provides guidance for selecting a contract type appropriate to circumstances of the acquisition
- Contract type determines how the contractor is paid IAW the level of risk
- Contracts may be one or a combination of types

Contract types are negotiated to:

Result in reasonable contractor risk

Provide the contractor with the greatest incentive for efficient and economical performance

Factors in determining contract type:

Price competition

Price analysis

Cost analysis

Type and complexity of requirement

Urgency

Period/length of performance

Contractor’s capability

Two Broad Categories of Contracts: Fixed Price and Cost

- Fixed price: Total price is negotiated prior to award
  - Contractor assumes responsibility (risk) for performance costs and resulting profit
  - Firm fixed-price:
    - Used when risk is minimal
    - Not subject to any $ adjustment on the basis of contractor’s cost experience
    - Contractor has full cost responsibility

Cost reimbursement contracts

- Only the profit/fee is negotiated prior to award
- All allowable, allocable, and reasonable contract costs are paid, to the extent allowed in the contract
- Contractor has minimal responsibility for managing performance costs

Cost reimbursement contracts (cont'd)

Used when there are uncertainties in contract performance and costs cannot be estimated with sufficient accuracy to use a fixed-price type contract

A ceiling price is established for purposes of obligating funds

- Ceiling cannot be exceed without approval of KO

Economic Price Adjustment Contracts

- Provides for upward and downward revision of the contract price

A single contract may have more than one contract type

Current MCS contract has the following elements:

- Administrative services: Firm fixed-price
- Health care services, including resource sharing: Economic price adjustment
- Resource support: Firm fixed-price indefinite quantity (task orders)

The T-NEX contract will be a different animal!

T-NEX contract has the following elements:

- Services provided during 10 month transition-in period: firm fixed-price
- TRICARE Service Centers: firm fixed-price
- Services provided during transition-out period: firm fixed-price

T-NEX Contract (cont'd)

- Claims processing – firm fixed-price, priced per claim for paper and electronic claims
- "Per Member Per Month" (number of MHS-eligible beneficiaries multiplied by the number of months in the contract period) – firm fixed-price

Cost Aspects of T-NEX Contract

The following element of the T-NEX contract will be <u>cost plus fixed fee</u>: Disease Management

- Cost plus fixed fee is the contract type with the lowest financial risk for the contractor
- The amount of fee is fixed, based on estimated costs, at the time of award
- Fee is <u>not</u> adjusted based on changes in costs

Cost Aspects of T-NEX Contract (cont'd)

Health care costs are <u>Cost Plus Incentive Fee</u>

- Contractor is required to "underwrite" the cost of health care services in the civilian sector (also called purchased care)
- Underwriting mechanism: An underwriting fee
- Offerors bid on two elements:
  - Target health care cost, and
  - Target underwriting fee

Determination of Underwriting Fee

- Applies a fee adjustment formula as described in RFP paragraph H.1
  - If actual underwritten health care costs < target costs, fee is the <u>lesser</u> of:
    - Target fee + 20% of the difference between the target cost and the actual cost; or
    - The maximum fee amount.

Determination of Underwriting Fee (cont'd)

If actual underwritten health care costs exceed target costs, the fee will be the greater of:

- The target fee plus 20% of the difference between the target cost and the actual cost (a negative number), or;
- The minimum fee amount (a negative number)

Maximum fee is 10% of target costs

Minimum fee is negative 4% of target costs

Fixed Price Award Fee

The fixed price (including indefinite quantity) line items of the T-NEX contract will have <u>award fee</u> features

- Offerors shall commit a minimum of 3% and a maximum of 10% of the price of the fixed price and indefinite quantity line items as a <u>performance guarantee</u>.
- After contract is awarded, the amount committed by the contractor shall become the award fee pool.

Fixed Price Award Fee (cont'd)

- Award fee pool consists of three components:
  - Beneficiary satisfaction
  - MTF Commander satisfaction
  - Regional Director satisfaction
- The award fee is calculated and paid quarterly
- Unused award fee amounts are not "available" to be paid in a later quarter

Award Fee Plan – Attachment L-3

- Describes by title the members of the Award Fee Board, to include:
  - Deputy Regional Director
  - PCO
  - ACO
  - COR
- Award Fee Board recommends an Award Fee percentage (up to 100% of the amount available for that quarter in the Award Fee Pool)
- Award Fee Determining Official makes final decision on amount of award fee

Award Fee Plan – Attachment L-3 (cont'd)

- Recommendation of Award Fee Board is based on input from two satisfaction surveys:
  - Beneficiary survey
  - MTF Commander and Deputy Regional Director survey
- Other information may be considered
- Award Fee determination is <u>subjective</u>

Award Fee Determination

- Award Fee Determining Official provides a written determination on amount of the award fee and rationale for determining amount
- PCO provides rationale to the contractor, and prepares contract modification to pay the award fee
- Determination of amount of award fee is <u>not</u> subject to the Disputes Clause

How Resource Sharing fits into this scheme

- The offeror does <u>not</u> deduct savings from his bid price
- Resource sharing is billed fee for service
- There is no need to account for workload credits
- Contractor may use resource sharing to reduce costs

QUESTIONS???

Now – dry is over - back to the wet!